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## **Actuarial Memorandum**

### **PacifiCare Life and Health Insurance Company Individual Policy Filing**

#### Qualifications

I, Douglas A. Proebsting, am a member of the American Academy of Actuaries and meet its qualification standards for actuaries issuing statements of actuarial opinions in the United States. This filing is prepared on behalf of PacifiCare Life and Health Insurance Company (the "Company").

I am affiliated with Milliman, Inc. ("Milliman") an independent actuarial consulting firm that is not affiliated with, nor a subsidiary, nor in any way owned or controlled by a health plan, health insurer, or a trade association of health plans or insurers.

#### Scope

As a Principal and Consulting Actuary with Milliman, I have written this actuarial memorandum at the request of the Company to discuss the rate filing for its Individual PPO plans, including the Self-Directed Health Plans (SDHP). The purpose of this rate filing is to comply with the benefit requirements of the Patient Protection and Affordable Care Act (PPACA). Benefits are being updated on non-grandfathered plans to remove annual and lifetime limits and to increase preventive care coverage.

The proposed rates included in this filing will be effective for new and existing members enrolling or renewing on or after August 1, 2011. Rates are guaranteed for 12 months following the effective date or renewal date.

The estimated impact of complying with the PPACA benefit requirements varies from 2.5% to 9.1% depending on the current plan design. The impact is greater on plans that currently have higher cost sharing on preventive benefits (i.e., whether or not copayments, deductibles, coinsurance, or annual maximums previously applied to preventive). Going forward, these preventive services will be covered at no cost to the member. The Company is requesting the largest increase (9.1%) on the Costco plans because the \$1,000 brand drug name annual maximum is being removed.

This statement of opinion complies with the Actuarial Standards of Practice 8 and 41, promulgated by the Actuarial Standards Board.

#### Reliance

I relied upon information provided by Ms. Michelle L. Peters, FSA, MAAA, Director, Actuarial Services for UnitedHealthcare's individual line of business, which includes PacifiCare Life and Health Insurance Company's health insurance products marketed to individuals. While I reviewed the information for reasonableness, I did not audit the underlying data for correctness. Appendix A contains a Statement Regarding Accuracy and Completeness of the Underlying Data Sources provided to me as part of my review and forms a part of this opinion. If the data provided is later determined to be inaccurate, my conclusions could change.



Description of Testing Procedures

As part of my review, I followed the testing procedures outlined below.

Under my direction, we reviewed the process performed by the Company's Actuarial staff to estimate the cost of the required benefit changes including:

1. Reviewed the work papers and narratives provided by the Company detailing their estimates of the benefit change impact by plan.
2. Used internal Milliman data to develop independent cost estimates of the benefit changes.

The Company aggregated the experience of similar types of plans for credibility purposes to perform their cost estimates. The plans with a requested increase of 0% have only grandfathered members so no significant benefit changes are being made and thus, no increase is being requested. All plans will have unlimited lifetime maximum coverage going forward, but the Company is not requesting a premium increase for this benefit change since prior lifetime limits were already high (\$5 million).

Opinion – Actuarially Sound in the Aggregate

In my opinion, the proposed premium rate changes for preventive services are actuarially sound in the aggregate. I believe the Company's methods and calculations are in accordance with accepted actuarial standards and are in accordance with sound actuarial principles.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Douglas A. Proebsting".

Douglas A. Proebsting  
Member of the American Academy of Actuaries  
June 24, 2011

## **Appendix A Statement Regarding Accuracy and Completeness Of the Underlying Data Sources**

### Items Relied Upon During Testing by Milliman for the August 1, 2011 Individual Policy Rate Increase

- > Detailed documents outlining the data collection process, rate methodology and considerations made in setting the proposed rates.
- > Claims, premium and enrollment data for the 2010 experience period.
- > Plan benefit descriptions outlining the current and proposed benefits.
- > Correspondence with UnitedHealthcare staff discussing the development of the rating process.
- > Confirmation that filed rates result in premium differences between insureds within similar risk categories that are permissible under applicable State law.

The sources identified above were relied upon by Milliman, Inc. in preparing this statement of actuarial opinion.

I, Michelle L. Peters, FSA, MAAA, Director, Actuarial Services for UnitedHealthcare's individual line of business, which includes PacifiCare Life and Health Insurance Company's health insurance products marketed to individuals, hereby affirm that the rate development information identified above and provided to Milliman, Inc. were prepared under my direction, and the data sources relied upon and supporting documentation are to the best of my knowledge accurate and complete, unless otherwise noted below. Finally, I affirm that all information that affects the actuarial items examined has been given to you, and I have disclosed all items of which I am aware that would have a material impact on the rate increase calculation.

June 24, 2011

\_\_\_\_\_  
Date

  
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Signature